

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Akron Fairgrove Wastewater System	County Tuscola
Fiscal Year End March 31, 2007	Opinion Date July 9, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

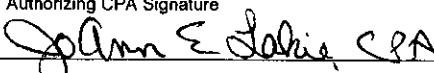
§ 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Nietzke & Faupel P.C., CPAs		Telephone Number (989) 883-3122	
Street Address 41 East Main Street		City Sebewaing	State MI
Zip 48759			
Authorizing CPA Signature 	Printed Name Jo Ann Lakie	License Number 1101017493	

**BOARD OF OPERATIONS
AKRON FAIRGROVE
WASTEWATER SYSTEM
AKRON, MICHIGAN
TUSCOLA COUNTY**

**FINANCIAL REPORT
MARCH 31, 2007**

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

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ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Board of Operations
Akron Fairgrove Wastewater System
Akron, Michigan

We have audited the accompanying financial statements of the business-type activities of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board of Operations - Akron Fairgrove Wastewater System, Akron, Michigan, as of March 31, 2007 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through iii are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

July 9, 2007

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

7274 Hartley St. • Box 499 • Pigeon, MI 48755
989.453.3122 • Fax 989.453.2219

email@nfcpa.com
www.nfcpa.com

41 E. Main St. • Sebewaing, MI 48759
989.883.3122 • Fax 989.883.3400

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Introduction

The discussion and analysis of Akron Fairgrove Wastewater System's financial performance provides an overview of the Board of Operations financial activities for the year ended March 31, 2007. This report is a part of the Board of Operations Annual Report.

The purpose of the Board of Operations is to supervise the operation of the wastewater system jointly owned by the Village of Akron and the Village of Fairgrove. The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

Using the Annual Report

This annual report consists of a series of financial statements as follows:

- ▶ **The Statement of Net Assets** presents information on all of the Board of Operation's assets and liabilities, with the difference between the two reported as net assets.
- ▶ **The Statement of Revenues, Expenses and Change in Net Assets** presents information showing how the Board of Operations net assets changed during the most recent year. All change in net assets are reported on an accrual basis, that is, the event is recorded in the accounting records when the underlying event takes place regardless of the timing of the related cash flows.
- ▶ **The Statement of Cash Flows** presents the financial activities of the Board of Operations on a cash received and cash paid basis. This statement also reconciles the change in cash accounts for the Board of Operations from the prior year to the current year.
- ▶ **The Notes to the Financial Statements** provide additional details underlying the data provided in the financial statements.

Financial Highlights

The Statement of Net Assets outlines the assets, liabilities and net assets of the Board of Operations. The net assets increased from \$85,814 in the prior year to \$88,043 in the current year, an increase of \$2,229.

	<u>March 31, 2007</u>		<u>March 31, 2006</u>	
Unrestricted current assets	\$46,504	52.82%	\$42,246	49.23%
Capital Assets	<u>41,539</u>	<u>47.18%</u>	<u>43,568</u>	<u>50.77%</u>
Net Assets	<u>\$88,043</u>	<u>100.00%</u>	<u>\$85,814</u>	<u>100.00%</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

The change in assets:

	March 31,	
	<u>2007</u>	<u>2006</u>
Unrestricted current assets (cash, investments, and receivable)	\$4,258	\$10,978
Capital Assets	(2,029)	1,825
Total Increase in Assets	<u>\$2,229</u>	<u>\$12,803</u>

The total liabilities increased from \$358 to \$368.

The change in net assets of \$2,229 and \$12,803 as shown on the Statement of Revenue, Expenses, and Change in Net Assets includes:

	March 31,	
	<u>2007</u>	<u>2006</u>
Operating Income (operating revenues less operating expenses)	\$5,969	\$12,348
Non-Operating Revenues/Expenses	1,074	455
Prior Period Adjustment	(4,814)	
Change in Net Assets	<u>\$2,229</u>	<u>\$12,803</u>

The Board of Operations realizes nearly all of its operating revenue from two sources: charges for services to the two Villages. Charges for services in the amount of \$23,983 comprise 95.7% of the revenue. The relative percentages for sources of revenue did not change significantly from one year to the next. The prior period adjustment is due to \$5,252 that was capitalized in error as of March 31, 2006. This amount is being reclassified to supplies resulting in a net change to net assets of \$4,814.

During the fiscal year 2007 there were no significant variations between the actual revenues and expenses and anticipated revenues and expenses as approved by the Board of Operations. The overall financial position of the Board of Operations has not significantly changed from the prior year as the agreement for services and funding between the Board of Operations and Villages has remained fundamentally the same.

The Board of Operations plans to complete the lagoon improvement project by replacing the remaining eroded steel pipe. The cost to finish this project is estimated at \$30,000 and it is expected to be completed during the fiscal year 2008.

Requests for Information

This financial report is designed to provide residents of both the Village of Akron and the Village of Fairgrove with a general overview of the Board of Operation's finances and to show accountability for the funding it receives. Questions concerning any of the information in this report should be addressed to: Robert Hill, Chairman, Michael Krause, Treasurer, Akron Fairgrove Wastewater, Akron, MI 48701.

BASIC FINANCIAL STATEMENTS

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

STATEMENT OF NET ASSETS MARCH 31, 2007

Current assets:

Cash in bank	\$	41,022	
Accounts receivable		<u>5,850</u>	
Total current assets			\$ 46,872

Non-current assets:

Capital assets:

Building and lagoon improvements	51,355	
Equipment	7,127	
Accumulated depreciation	<u>(16,943)</u>	
Total capital assets, net of accumulated depreciation	<u>41,539</u>	
Total non-current assets		41,539

Total assets	<u>88,411</u>
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Current liabilities:

Accounts payable	<u>368</u>	
Total current liabilities		<u>368</u>

Net assets:

Investment in capital assets	41,539	
Unrestricted	<u>46,504</u>	
Total net assets		<u>\$ 88,043</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEAR ENDED MARCH 31, 2007**

OPERATING REVENUES:

Charges for services	\$ 23,983	
Total operating revenue		\$ 23,983

OPERATING EXPENSES:

Depreciation	2,775	
Insurance	1,211	
Lagoon analysis	2,875	
Miscellaneous	357	
Operating supplies	2,888	
Permits	400	
Professional fees	940	
Repairs	1,515	
Salaries and board fees	4,945	
Utilities	108	
Total operating expenses		18,014

Operating income	5,969
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NON-OPERATING REVENUES:

Interest income	1,074	
Total non-operating revenues		1,074

Change in net assets	7,043
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NET ASSETS AT APRIL 1, 2006	85,814
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PRIOR PERIOD ADJUSTMENT	(4,814)
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NET ASSETS AT MARCH 31, 2007	\$ 88,043
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BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from villages for wastewater services	\$ 26,977
Cash payments to employees	(4,945)
Cash payments to suppliers for materials and services	<u>(10,285)</u>

Net cash provided by operating activities \$ 11,747

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of assets	<u>(5,560)</u>
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Net cash (used) by capital and related financing activities (5,560)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>1,074</u>
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Net cash provided by investing activities 1,074

NET INCREASE IN CASH 7,261

Cash at April 1, 2006 33,761

Cash at March 31, 2007 \$ 41,022

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED FROM OPERATING ACTIVITIES:

Operating income \$ 5,969

Adjustments to reconcile operating income to net cash provided
by operating activities:

Depreciation 2,775

Changes in current assets and current liabilities

Decrease in current assets:

Accounts receivable 2,993

Increase in current liabilities:

Accounts payable 10

Net cash flows from operating activities \$ 11,747

The accompanying notes are an integral
part of the financial statements.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Board of Operations-Akron Fairgrove Wastewater System was formed March 11, 1980, as a result of a contract between the Village of Akron and the Village of Fairgrove regarding their joint ownership and operation of their wastewater system. The Board was established to supervise the operation of the system including maintenance of all facilities and equipment. In return, the Board bills the Villages on a quarterly basis for a flat rate for their share of expenses:

The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

The Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Board conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Board are discussed below.

Principles Determining Scope of Reporting Entity:

In evaluating how to define the Board for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, the Board has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Board.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Board of Operations is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial activities of the Board of Operations-Akron Fairgrove Wastewater System are recorded in one fund categorized as an Enterprise Fund. Enterprise Funds are of the Proprietary Fund Type and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents:

Cash and cash equivalents of the Board of Operations-Akron Fairgrove Wastewater System include all deposits with financial institutions. Deposits with financial institutions are fully insured by the FDIC.

Capital Assets:

Capital assets are defined by the Board of Operations as assets with an initial, individual cost of more than \$500. Capital assets of the Board of Operations are reported at cost or the fair market value at the time of contribution to the Board of Operations. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Test Wells	20
Lagoon Improvements	15 – 20
Equipment	7

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 2 – CASH DEPOSITS:

Deposits are carried at cost. Deposits of the Board of Operations are made in banks in the name of the Board of Operations Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Board Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. The Board's deposits are in accordance with statutory authority.

At March 31, 2007, the carrying amount of the Board's deposits was \$41,022 and the bank balance was \$41,022. Of the bank balance, \$41,022 was covered by federal depository insurance.

NOTE 3 – CHANGES IN CAPITAL ASSETS:

	BALANCE MARCH 31, <u>2006</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	BALANCE MARCH 31, <u>2007</u>
CAPITAL ASSETS:				
Building and lagoon improvements	\$ 45,795	\$5,560		\$51,355
Equipment	<u>12,379</u>		<u>\$5,252</u>	<u>7,127</u>
TOTAL CAPITAL ASSETS	58,174	5,560	<u>\$5,252</u>	58,482
Less: Accumulated				
Depreciation	<u>(14,606)</u>	<u>(2,337)</u>		<u>(16,943)</u>
NET CAPITAL ASSETS	\$ <u>43,568</u>	<u>\$(2,029)</u>		<u>\$41,539</u>

NOTE 4 – RELATED PARTY TRANSACTIONS:

The Board operates a raw sewage treatment facility (lagoon) for the Village of Fairgrove and the Village of Akron. Although the Board of Operations is not considered a component unit of the two villages, it is considered a jointly governed organization. The Board of Operations generates revenue by quarterly fixed user charges based on an average of the gallons pumped by the two Villages. The Village of Fairgrove user fees amounted to \$14,312 and the Village of Akron user fees amounted to \$9,671 for the fiscal year ended March 31, 2007. The related accounts receivable for the Village of Fairgrove is \$3,500 and for the Village of Akron is \$2,350 at March 31, 2007.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

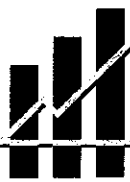
NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 5 - RISK MANAGEMENT:

The Board of Operations – Akron Fairgrove Wastewater System purchased commercial insurance coverage for all general liability coverage. Significant losses are covered by commercial insurance for all major programs. For the year ended March 31, 2007, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 6 – PRIOR PERIOD ADJUSTMENT:

As of March 31, 2006, chemical supplies in the amount of \$5,252 was classified as equipment in error. The capitalized asset has been reclassified to supplies resulting in a net decrease to net assets of \$4,814.



Nietzke & Faupel, PC

ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

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Communication of Significant Deficiencies and Material Weaknesses

July 9, 2007

To the Board of Operations and Mike Krause
of the Akron Fairgrove Wastewater System,

In planning and performing our audit of the financial statements, the business-type activities of Akron Fairgrove Wastewater System as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Akron Fairgrove Wastewater System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Due to the limited number of people sitting on the board and employed by Akron Fairgrove Wastewater, many critical duties are combined and given to the available employees. Presently, a single individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. Also, the same person responsible for cash disbursements is responsible for handling and depositing of cash receipts and posts to the cash receipts and maintains the accounts receivable subsidiary. Employees who have both custodial and record keeping responsibilities for the same asset creates a significant internal control weakness. While we understand that a complete segregation of duties is impractical for a small board with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible. We suggest that the duties of cash disbursements and cash receipts are separated from the duties of the bank account reconciliation.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

The personnel of Akron Fairgrove Wastewater System have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of Akron Fairgrove Wastewater System do not have the expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standards 112.

This communication is intended solely for the information and use of management, the Board of Operations of Akron Fairgrove Wastewater System, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


Nietzke & Faupel, PC

July 9, 2007